

BAXTER COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Baxter Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Curt Hansen	President	2008
Joyce Christianson	Vice President	2007
Randy Fuchs	Board Member	2009
Jon Northrup	Board Member	2009
Colette Kunkel	Board Member	2007
Board of Education (After September 2007 Election)		
Curt Hansen	President	2008
Joyce Christianson	Vice President	2011
Colette Kunkel	Board Member	2011
Randy Fuchs	Board Member	2009
Jon Northrup	Board Member	2009
School Officials		
Neil K. Seales	Superintendent	2008
Sandi Tyler	District Secretary/Treasurer and Business Manager (Resigned)	2008
Julie McWhirter	District Secretary/Treasurer and Business Manager (Appointed)	2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Baxter Community School District, Baxter, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Baxter Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2009 on our consideration of the Baxter Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Baxter Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2007 and June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 and June 30, 2004 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Baxter Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,272,329 in fiscal 2007 to \$3,517,142 in fiscal 2008, while General Fund expenditures increased from \$3,371,318 in fiscal 2007 to \$3,485,324 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$486,100 in fiscal 2007 to a balance of \$517,918 in fiscal 2008.
- The increase in General Fund revenues was attributable to an increase in state grant revenues during fiscal 2008. The increase in expenditures was due primarily to increases in salaries and benefits for District employees during fiscal 2007.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) at the year ended June 30, 2008, was approximately 14%. The State School Budget Review Committee recommends a solvency ratio of 5% - 10%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Baxter Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Baxter Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Baxter Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Baxter Community School District Annual Financial Report

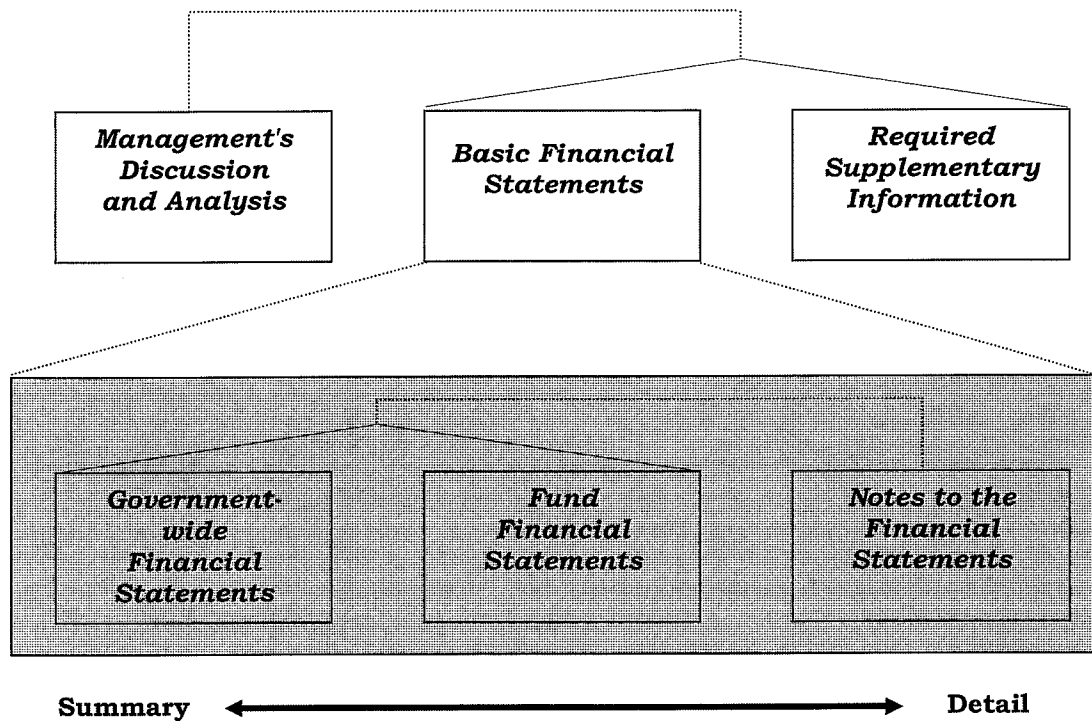


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 2,408,436	2,198,885	23,701	21,562	2,432,137	2,220,447	9.53%
Capital assets	6,690,887	6,797,634	37,682	41,773	6,728,569	6,839,407	-1.62%
Total assets	9,099,323	8,996,519	61,383	63,335	9,160,706	9,059,854	1.11%
Long-term obligations	3,650,480	3,938,375	0	0	3,650,480	3,938,375	-7.31%
Other liabilities	1,372,557	1,183,070	3,615	2,699	1,376,172	1,185,769	16.06%
Total liabilities	5,023,037	5,121,445	3,615	2,699	5,026,652	5,124,144	-1.90%
Net assets:							
Invested in capital assets, net of related debt	3,176,901	3,007,176	37,682	41,773	3,214,583	3,048,949	5.43%
Restricted	378,336	431,880	0	0	378,336	431,880	-12.40%
Unrestricted	521,049	436,018	20,086	18,863	541,135	454,881	18.96%
Total net assets	\$ 4,076,286	3,875,074	57,768	60,636	4,134,054	3,935,710	5.04%

The District's combined net assets increased by 5.04%, or \$198,344, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased by \$53,544, or 12.40% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased by \$86,254, or 18.96%. This decrease was due to the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 493,933	489,451	92,354	88,286	586,287	577,737	1.48%
Operating grants and contributions and restricted interest	423,685	451,527	61,268	56,018	484,953	507,545	-4.45%
Capital grants and contributions and restricted interest	0	110,000	0	0	0	110,000	-100.00%
General revenues:							
Property tax	1,128,767	1,178,768	0	0	1,128,767	1,178,768	-4.24%
Income surtax	173,981	145,709	0	0	173,981	145,709	19.40%
Local option sales tax	215,415	214,032	0	0	215,415	214,032	0.65%
Unrestricted state grants	1,726,336	1,513,726	0	0	1,726,336	1,513,726	14.05%
Unrestricted investment earnings	21,734	25,632	193	189	21,927	25,821	-15.08%
Other general revenues	108,100	406,671	0	0	108,100	406,671	-73.42%
Transfers	1,259	(42,356)	0	43,615	1,259	1,259	0.00%
Total revenues	4,293,210	4,493,160	153,815	188,108	4,447,025	4,681,268	-5.00%
Program expenses:							
Governmental activities:							
Instruction	2,267,001	2,130,304	0	0	2,267,001	2,130,304	6.42%
Support services	1,312,151	1,188,969	1,233	1,669	1,313,384	1,190,638	10.31%
Non-instructional programs	0	0	155,450	148,212	155,450	148,212	4.88%
Other expenditures	512,846	437,239	0	0	512,846	437,239	17.29%
Total expenses	4,091,998	3,756,512	156,683	149,881	4,248,681	3,906,393	8.76%
Change in net assets	201,212	736,648	(2,868)	38,227	198,344	774,875	-74.40%
Net assets beginning of year	3,875,074	3,138,426	60,636	22,409	3,935,710	3,160,835	24.51%
Net assets end of year	\$ 4,076,286	3,875,074	57,768	60,636	4,134,054	3,935,710	5.04%

In fiscal 2008, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 75.57% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.87% of the revenue from business type activities.

The District's total revenues were approximately \$4.45 million of which \$4.30 million was for governmental activities and approximately \$0.15 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.00% increase in revenues and an 8.76% increase in expenses. Unrestricted state grants increased \$212,610 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues, net of transfers for governmental activities were \$4,293,210 and expenses were \$4,091,998.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 2,267,001	2,130,304	6.42%	1,472,908	1,300,958	13.22%
Support services	1,312,151	1,188,969	10.36%	1,311,775	1,078,851	21.59%
Other expenses	512,846	437,239	17.29%	389,697	325,725	19.64%
Totals	<u>\$ 4,091,998</u>	<u>3,756,512</u>	<u>8.93%</u>	<u>3,174,380</u>	<u>2,705,534</u>	<u>17.33%</u>

- The cost financed by users of the District's programs was \$493,933.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$423,685.
- The net cost of governmental activities was financed with \$1,128,767 in property tax, \$173,981 in income surtax, \$215,415 in local option sales and services tax, \$1,726,336 in unrestricted state grants, \$21,734 in unrestricted investment earnings and \$108,100 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$153,815 and expenses were \$156,683. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Baxter Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$888,587, above last year's ending fund balances of \$878,832.

Governmental Fund Highlights

- The District's increase in General Fund financial position from \$486,100 to \$517,918 is the product of many factors. Increases in state grant revenues during the year resulted in an increase in revenues. The increase in revenues was more than the increase in expenditures resulting in a net increase of \$31,818.
- The Capital Projects Fund balance decreased from \$357,597 in fiscal 2007 to a \$345,539 in fiscal 2008. This slight decrease was due to expenditures and transfers for the year outpacing the increase in fund revenues as compared to fiscal 2007.

- The Debt Service Fund balance decreased from a deficit \$31,947 in fiscal 2007 to a deficit \$46,192 in fiscal 2008. This was due to the normally scheduled debt repayments transactions.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$60,636 at June 30, 2007 to \$57,768 at June 30, 2008, representing a decrease of 4.73%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$67,617 more than budgeted revenues, a variance of 1.52%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The district then manages or controls general Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$6,728,569, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.62% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$188,758.

The original cost of the District's capital assets was \$8,792,595. Governmental funds account for \$8,732,668 with the remaining of \$59,927 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$66,928 at June 30, 2007, compared to \$114,599 reported at June 30, 2008. This increase resulted from new concrete and resurfacing of the playground located across the street from the school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 75,602	75,602	0	0	75,602	75,602	0.00%
Buildings	6,387,367	6,535,722	0	0	6,387,367	6,535,722	-2.27%
Land improvements	114,599	66,928	0	0	114,599	66,928	71.23%
Machinery and equipment	113,319	119,382	37,682	41,773	151,001	161,155	-6.30%
Total	\$ 6,690,887	6,797,634	37,682	41,773	6,728,569	6,839,407	-1.62%

Long-Term Debt

At June 30, 2008, the District had \$3,650,480 in general obligation, revenue obligation and other long-term debt outstanding. This represents a decrease of 7.31% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,775,000 at June 30, 2008.

The District had total outstanding Revenue Bonds payable of \$715,000 at June 30, 2008.

The District had a bus lease payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$23,986 at June 30, 2008. During fiscal year 2008, the District made the fiscal 2009 payment for the bus lease. It is the District's intent to pay the 2010 and 2011 payments during the fiscal 2009 year.

The District had total outstanding Early Retirement payable from the Special Revenue – Management Levy Fund of \$101,636 at June 30, 2008.

The District had total outstanding compensated absences payable from the General Fund of \$34,858 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General Obligation Bonds	\$ 2,775,000	2,925,000	-5.13%
Revenue Bonds	715,000	820,000	-12.80%
Bus Lease	23,986	45,458	-47.23%
Early Retirement	101,636	97,998	3.71%
Compensated Absences	34,858	49,919	-30.17%
	<u>\$ 3,650,480</u>	<u>3,938,375</u>	<u>-7.31%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- On July 1, 2007 IPERS implemented an employers' contribution increase over a 4-year period. The employers' portion of IPERS increased from 5.75% to 6.05% on July 1, 2007, and will increase to 6.35% on July 1, 2008, to 6.65% on July 1, 2009 and finally to 6.95% on July 1, 2010. This will increase Baxter Community Schools' employer benefit costs significantly over the next few years.
- Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Julie McWhirter, Board Secretary, Baxter Community School District, 202 East State Street, Baxter, Iowa, 50028.

BASIC FINANCIAL STATEMENTS

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 720,343	22,277	742,620
Receivables:			
Property tax:			
Delinquent	10,624	0	10,624
Succeeding year	1,294,969	0	1,294,969
Income surtax	138,392	0	138,392
Accounts	5,065	0	5,065
Due from other governments	195,012	0	195,012
Inventories	0	1,424	1,424
Bond discounts and bond issue costs	44,031	0	44,031
Capital assets, net of accumulated depreciation(Note 4)	6,690,887	37,682	6,728,569
TOTAL ASSETS	9,099,323	61,383	9,160,706
LIABILITIES			
Accounts payable	34,344	0	34,344
Salaries and benefits payable	8,113	0	8,113
Interest payable	35,131	0	35,131
Deferred revenue:			
Succeeding year property tax	1,294,969	0	1,294,969
Unearned revenue	0	3,615	3,615
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Revenue bonds payable	110,000	0	110,000
Early retirement payable	23,235	0	23,235
Compensated absences payable	34,858	0	34,858
Portion due after one year:			
General obligation bonds payable	2,615,000	0	2,615,000
Revenue bonds payable	605,000	0	605,000
Bus lease payable	23,986	0	23,986
Early retirement payable	78,401	0	78,401
TOTAL LIABILITIES	5,023,037	3,615	5,026,652
NET ASSETS			
Invested in capital assets, net of related debt	3,176,901	37,682	3,214,583
Restricted for:			
Debt service	63,808	0	63,808
Talented and gifted	21,492	0	21,492
Capital projects	235,539	0	235,539
Physical plant and equipment levy	4,588	0	4,588
Other special revenue purposes	52,909	0	52,909
Unrestricted	521,049	20,086	541,135
TOTAL NET ASSETS	\$ 4,076,286	57,768	4,134,054

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,563,682	377,685	281,509	(904,488)	0	(904,488)
Special instruction	326,864	0	19,027	(307,837)	0	(307,837)
Other instruction	376,455	115,872	0	(260,583)	0	(260,583)
	<u>2,267,001</u>	<u>493,557</u>	<u>300,536</u>	<u>(1,472,908)</u>	<u>0</u>	<u>(1,472,908)</u>
Support services:						
Student services	99,717	0	0	(99,717)	0	(99,717)
Instructional staff services	113,186	0	0	(113,186)	0	(113,186)
Administration services	545,349	0	0	(545,349)	0	(545,349)
Operation and maintenance of plant services	390,859	0	0	(390,859)	0	(390,859)
Transportation services	163,040	376	0	(162,664)	0	(162,664)
	<u>1,312,151</u>	<u>376</u>	<u>0</u>	<u>(1,311,775)</u>	<u>0</u>	<u>(1,311,775)</u>
Other expenditures:						
Facilities acquisitions	68,492	0	0	(68,492)	0	(68,492)
Long-term debt interest	162,255	0	0	(162,255)	0	(162,255)
AEA flowthrough	123,149	0	123,149	0	0	0
Depreciation(unallocated)*	158,950	0	0	(158,950)	0	(158,950)
	<u>512,846</u>	<u>0</u>	<u>123,149</u>	<u>(389,697)</u>	<u>0</u>	<u>(389,697)</u>
Total governmental activities	4,091,998	493,933	423,685	(3,174,380)	0	(3,174,380)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	1,233	0	0	0	(1,233)	(1,233)
Non-instructional programs:						
Nutrition services	155,450	92,354	61,268	0	(1,828)	(1,828)
Total business-type activities	<u>156,683</u>	<u>92,354</u>	<u>61,268</u>	<u>0</u>	<u>(3,061)</u>	<u>(3,061)</u>
Total	<u>\$ 4,248,681</u>	<u>586,287</u>	<u>484,953</u>	<u>(3,174,380)</u>	<u>(3,061)</u>	<u>(3,177,441)</u>
General Revenues and Transfers:						
General Revenues:						
Property tax for:						
General purposes				\$ 832,032	0	832,032
Debt service				273,632	0	273,632
Capital outlay				23,103	0	23,103
Income surtax				173,981	0	173,981
Local option sales and services tax				215,415	0	215,415
Unrestricted state grants				1,726,336	0	1,726,336
Unrestricted investment earnings				21,734	193	21,927
Other general revenues				108,100	0	108,100
Transfers				1,259	0	1,259
Total general revenues and transfers				<u>3,375,592</u>	<u>193</u>	<u>3,375,785</u>
Changes in net assets				201,212	(2,868)	198,344
Net assets beginning of year				<u>3,875,074</u>	<u>60,636</u>	<u>3,935,710</u>
Net assets end of year				<u>\$ 4,076,286</u>	<u>57,768</u>	<u>4,134,054</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
ASSETS					
Cash and pooled investments	\$ 411,855	286,944	0	70,051	768,850
Receivables:					
Property tax					
Delinquent	7,038	0	2,315	1,271	10,624
Succeeding year	864,483	0	280,620	149,866	1,294,969
Income surtax	115,327	0	0	23,065	138,392
Accounts	5,065	0	0	0	5,065
Due from other governments	136,417	58,595	0	0	195,012
TOTAL ASSETS	\$ 1,540,185	345,539	282,935	244,253	2,412,912
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	48,507	0	48,507
Accounts payable	34,344	0	0	0	34,344
Salaries and benefits payable	8,113	0	0	0	8,113
Deferred revenue:					
Succeeding year property tax	864,483	0	280,620	149,866	1,294,969
Income surtax	115,327	0	0	23,065	138,392
Total liabilities	1,022,267	0	329,127	172,931	1,524,325
Fund balances:					
Reserved for:					
Debt service	0	110,000	0	0	110,000
Talented and gifted	21,492	0	0	0	21,492
Unreserved	496,426	235,539	(46,192)	71,322	757,095
Total fund balances	517,918	345,539	(46,192)	71,322	888,587
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,540,185	345,539	282,935	244,253	2,412,912

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 888,587
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,690,887
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	138,392
Bond issue costs and bond discounts are an expense when incurred in the governmental funds, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.	44,031
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(35,131)
Long-term liabilities, including general obligation bonds, revenue bonds, bus lease, early retirement and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(3,650,480)
Net assets of governmental activities (page 13)	<u>\$ 4,076,286</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 870,643	215,415	273,632	147,683	1,507,373
Tuition	369,585	0	0	0	369,585
Other	124,106	5,743	3,255	118,278	251,382
Intermediate sources	1,385	0	0	0	1,385
State sources	2,055,209	0	0	13	2,055,222
Federal sources	92,714	0	0	0	92,714
Total revenues	3,513,642	221,158	276,887	265,974	4,277,661
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,510,107	0	0	49,261	1,559,368
Special instruction	326,864	0	0	0	326,864
Other instruction	284,987	0	0	109,157	394,144
	2,121,958	0	0	158,418	2,280,376
Support services:					
Student services	99,192	0	0	0	99,192
Instructional staff services	113,186	0	0	0	113,186
Administration services	560,410	0	0	0	560,410
Operation and maintenance of plant services	327,434	0	0	58,809	386,243
Transportation services	139,995	5,110	0	0	145,105
	1,240,217	5,110	0	58,809	1,304,136
Other expenditures:					
Facilities acquisitions	0	67,044	0	59,714	126,758
Long-term debt:					
Principal	0	0	276,472	0	276,472
Interest and fiscal charges	0	0	161,774	0	161,774
AEA flowthrough	123,149	0	0	0	123,149
	123,149	67,044	438,246	59,714	688,153
Total expenditures	3,485,324	72,154	438,246	276,941	4,272,665
Excess(deficiency) of revenues over(under) expenditures	28,318	149,004	(161,359)	(10,967)	4,996
Other financing sources(uses):					
Sale of equipment	3,500	0	0	0	3,500
Transfer in	0	0	147,114	41,259	188,373
Transfer out	0	(161,062)	0	(26,052)	(187,114)
Total other financing sources(uses)	3,500	(161,062)	147,114	15,207	4,759
Net change in fund balances	31,818	(12,058)	(14,245)	4,240	9,755
Fund balance beginning of year	486,100	357,597	(31,947)	67,082	878,832
Fund balance end of year	\$ 517,918	345,539	(46,192)	71,322	888,587

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 9,755

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Expenditures for capital assets	\$ 77,920	
Depreciation expense	<u>(184,667)</u>	(106,747)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Repaid	276,472
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,271

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

10,790

Bond issue costs and bond discounts are reported as expenses in the fund financial statements, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.

(3,752)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	\$ (3,638)	
Compensated Absences	<u>15,061</u>	<u>11,423</u>

Changes in net assets of governmental activities (page 14) \$ 201,212

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 22,277
Inventories	1,424
Capital assets, net of accumulated depreciation (Note 4)	37,682
TOTAL ASSETS	<u>61,383</u>
LIABILITIES	
Unearned revenue	<u>3,615</u>
NET ASSETS	
Invested in capital assets	37,682
Unrestricted	20,086
TOTAL NET ASSETS	<u><u>\$ 57,768</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 92,354
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant services:	
Services	1,233
Non-instructional programs:	
Food service operations:	
Salaries	48,330
Benefits	15,066
Supplies	87,963
Depreciation	4,091
Total non-instructional programs	155,450
TOTAL OPERATING EXPENSES	156,683
OPERATING LOSS	(64,329)
NON-OPERATING REVENUES:	
State sources	2,363
Federal sources	58,905
Interest income	193
TOTAL NON-OPERATING REVENUES	61,461
Change in net assets	(2,868)
Net assets beginning of year	60,636
Net assets end of year	\$ 57,768

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 93,270
Cash payments to employees for services	(63,396)
Cash payments to suppliers for goods or services	(81,987)
Net cash used in operating activities	<u>(52,113)</u>
Cash flows from non-capital financing activities:	
State grants received	2,363
Federal grants received	52,483
Net cash provided by non-capital financing activities	<u>54,846</u>
Cash flows from investing activities:	
Interest on investments	<u>193</u>
Net increase in cash and cash equivalents	2,926
Cash and cash equivalents at beginning of year	<u>19,351</u>
Cash and cash equivalents at end of year	<u>\$ 22,277</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (64,329)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	6,422
Depreciation	4,091
Decrease in inventories	787
Increase in unearned revenue	916
Net cash used in operating activities	<u>\$ (52,113)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 22,277</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received
Federal commodities valued at \$6,422.

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 30,192</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	28,916
Unreserved	<u>1,276</u>
TOTAL NET ASSETS	<u><u>\$ 30,192</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest income	\$ 1,018
Total deductions	0
Change in net assets before other financing uses	1,018
Other financing uses:	
Transfer out	(1,259)
Change in net assets	(241)
Net assets beginning of year	30,433
Net assets end of year	\$ 30,192

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Baxter Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Baxter, Iowa, and the predominate agricultural territory in Jasper and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Baxter Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Baxter Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper and Marshall Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which

normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Funds in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Certificates are stated at fair value.

At June 30, 2008, the District had investments in Certificates of Deposit maturing over one year as follows:

	Fair Value
Certificates of deposit	\$ 28,916

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 26,052
Special Revenue: Student Activity	Private Purpose Trust	1,259
Debt Service	Capital Projects	121,062
Special Revenue: Physical Plant and Equipment Levy	Capital Projects	40,000
Total		\$ 188,373

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,602	0	0	75,602
Total capital assets not being depreciated	75,602	0	0	75,602
Capital assets being depreciated:				
Buildings	7,680,109	0	0	7,680,109
Land improvements	294,445	58,266	0	352,711
Machinery and equipment	604,592	19,654	0	624,246
Total capital assets being depreciated	8,579,146	77,920	0	8,657,066
Less accumulated depreciation for:				
Buildings	1,144,387	148,355	0	1,292,742
Land improvements	227,517	10,595	0	238,112
Machinery and equipment	485,210	25,717	0	510,927
Total accumulated depreciation	1,857,114	184,667	0	2,041,781
Total capital assets being depreciated, net	6,722,032	(106,747)	0	6,615,285
Governmental activities capital assets, net	\$ 6,797,634	(106,747)	0	6,690,887
Business-type activities:				
Machinery and equipment	\$ 59,927	0	0	59,927
Less accumulated depreciation	18,154	4,091	0	22,245
Business-type activities capital assets, net	\$ 41,773	(4,091)	0	37,682

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 676
Other	1,965
Support services:	
Student	525
Operation and maintenance of plant	4,616
Transportation	17,935
	<u>25,717</u>
Unallocated depreciation	158,950
Total governmental activities depreciation expense	<u>\$ 184,667</u>
Business-type activities:	
Food services	<u>\$ 4,091</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,925,000	0	150,000	2,775,000	160,000
Revenue Bonds	820,000	0	105,000	715,000	110,000
Bus Lease	45,458	0	21,472	23,986	0
Early Retirement	97,998	29,836	26,198	101,636	23,235
Compensated Absences	49,919	34,858	49,919	34,858	34,858
	<u>\$ 3,938,375</u>	<u>64,694</u>	<u>352,589</u>	<u>3,650,480</u>	<u>328,093</u>

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded debt is as follows:

Year Ending June 30,	Bond issue of July 1, 2001			Bond issue of May 1, 2003		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2009	4.25 % \$	0	75,095	2.70 % \$	160,000	32,195
2010	4.25	0	75,095	3.20	165,000	27,395
2011	4.25	0	75,095	3.40	170,000	22,115
2012	4.25	0	75,095	3.60	180,000	16,335
2013	4.25	0	75,095	3.80	185,000	10,035
2014-2018	4.25-4.60	600,000	330,017	4.00	90,000	3,375
2019-2024	4.70-5.05	965,000	171,538		0	0
Total		<u>\$ 1,565,000</u>	<u>877,030</u>		<u>\$ 950,000</u>	<u>111,450</u>

Year Ending June 30,	Bond issue of June 1, 2006			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2009	4.50 % \$	0	11,700	\$ 160,000	118,990	278,990
2010	4.50	0	11,700	165,000	114,190	279,190
2011	4.50	0	11,700	170,000	108,910	278,910
2012	4.50	0	11,700	180,000	103,130	283,130
2013	4.50	0	11,700	185,000	96,830	281,830
2014-2018	4.50	260,000	32,402	950,000	365,794	1,315,794
2019-2024		0	0	965,000	171,538	1,136,538
Total		<u>\$ 260,000</u>	<u>90,902</u>	<u>\$ 2,775,000</u>	<u>1,079,382</u>	<u>3,854,382</u>

Revenue Bonds Payable

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond issue of July 1, 2004				
	Interest Rates		Principal	Interest	Total
2009	3.60	% \$	110,000	28,660	138,660
2010	3.75		110,000	24,700	134,700
2011	4.00		115,000	20,575	135,575
2012	4.10		120,000	15,975	135,975
2013	4.20		125,000	11,055	136,055
2014	4.30		135,000	5,805	140,805
Total			\$ 715,000	106,770	821,770

The District has pledged future local option sales and services tax revenues to repay the \$715,000 bonds issued July 1, 2004. The bonds were issued for the purpose of defraying a portion of the cost of building improvements at the school. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 51 percent of the local option sales and service tax revenues. The total principal and interest remaining to be paid on the notes is \$821,770. For the current year \$137,125 in principal and interest was paid on the bonds and total local option sales and services tax revenues were \$215,415.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$110,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives include a cash payment

based on a percentage of current salary and the payment by the District of up to \$200 per month for health insurance premiums. At June 30, 2008, the District had obligations to seven participants with a total liability of \$101,636. Early retirement benefits paid during the year ended June 30, 2008 totaled \$26,198. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

Bus Lease Payable

On October 15, 2006, the District entered into an agreement to lease a school bus for \$56,980 with Kansas State Bank. The remaining balance of the notes will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund.

During the year ended June 30, 2008, the District also made the payment for 2009, therefore no lease payments have to be made until fiscal year 2010. Details of the District's June 30, 2008 bus lease indebtedness is as follows:

Year Ending June 30,	Bus lease of October 15, 2006				
	Interest Rates		Principal	Interest	Total
2010	5.69	% \$	11,661	1,365	13,026
2011	5.69		12,325	701	13,026
Total		\$	23,986	2,066	26,052

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$134,858, \$120,295 and \$110,974, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$123,149 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Deficit Fund Balances

At June 30, 2008, there was a deficit fund balance in the Debt Service Fund of \$46,192.

REQUIRED SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,128,340	92,547	2,220,887	1,958,914	1,958,914	261,973
Intermediate sources	1,385	0	1,385	0	0	1,385
State sources	2,055,222	2,363	2,057,585	2,207,445	2,207,445	(149,860)
Federal sources	92,714	58,905	151,619	197,500	197,500	(45,881)
Total revenues	4,277,661	153,815	4,431,476	4,363,859	4,363,859	67,617
Expenditures:						
Instruction	2,280,376	0	2,280,376	2,472,718	2,472,718	192,342
Support services	1,304,136	1,233	1,305,369	2,220,500	2,220,500	915,131
Non-instructional programs	0	155,450	155,450	247,000	247,000	91,550
Other expenditures	688,153	0	688,153	704,599	704,599	16,446
Total expenditures	4,272,665	156,683	4,429,348	5,644,817	5,644,817	1,215,469
Excess(deficiency) of revenues over(under) expenditures	4,996	(2,868)	2,128	(1,280,958)	(1,280,958)	1,283,086
Other financing sources, net	4,759	0	4,759	15,000	15,000	(10,241)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	9,755	(2,868)	6,887	(1,265,958)	(1,265,958)	1,272,845
Balances beginning of year	878,832	60,636	939,468	1,269,602	1,269,602	(330,134)
Balances end of year	\$ 888,587	57,768	946,355	3,644	3,644	942,711

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 12,750	52,909	4,392	70,051
Receivables:				
Property tax:				
Delinquent	1,075	0	196	1,271
Succeeding year property tax	125,000	0	24,866	149,866
Income surtax	0	0	23,065	23,065
TOTAL ASSETS	\$ 138,825	52,909	52,519	244,253
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 125,000	0	24,866	149,866
Income surtax	0	0	23,065	23,065
Total liabilities	125,000	0	47,931	172,931
Unreserved fund balances	13,825	52,909	4,588	71,322
TOTAL LIABILITIES AND FUND BALANCES	\$ 138,825	52,909	52,519	244,253

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2008

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	\$ 110,297	0	37,386	147,683
Other	9,718	108,436	124	118,278
State sources	0	0	13	13
TOTAL REVENUES	120,015	108,436	37,523	265,974
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	49,261	0	0	49,261
Other instruction	0	109,157	0	109,157
Support services:				
Operation and maintenance of plant services	58,809	0	0	58,809
Other expenditures:				
Facilities acquisition	0	0	59,714	59,714
TOTAL EXPENDITURES	108,070	109,157	59,714	276,941
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	11,945	(721)	(22,191)	(10,967)
OTHER FINANCING SOURCES (USES):				
Transfer in	0	1,259	40,000	41,259
Transfer out	0	0	(26,052)	(26,052)
TOTAL OTHER FINANCING SOURCES (USES)	0	1,259	13,948	15,207
Net change in fund balances	11,945	538	(8,243)	4,240
Fund balances beginning of year	1,880	52,371	12,831	67,082
Fund balances end of year	\$ 13,825	52,909	4,588	71,322

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund and Intrafund Transfers	Balance End of Year
Drama	\$ 585	0	123	0	462
Vocal music	10,907	2,625	4,664	0	8,868
Instrumental music	10,174	2,720	1,433	0	11,461
Athletics	6,164	12,674	8,326	(8,340)	2,172
CMB shared athletics	(6,559)	53,265	56,100	9,394	0
CMB football	0	0	2,108	2,108	0
CMB baseball	0	656	4,048	3,392	0
CMB boys track	0	95	298	203	0
CMB girls basketball	0	0	899	899	0
CMB softball	0	352	0	(352)	0
CMB soccer	0	806	0	(806)	0
Swalwell athletic donation	5,905	0	0	1,259	7,164
Cheerleading	2,278	0	0	0	2,278
Drill team	209	863	664	0	408
Student council	3,311	2,556	3,650	0	2,217
Class of 2008	657	4,878	4,080	(540)	915
Class of 2009	81	6,057	6,413	540	265
Science club	418	0	138	0	280
Historian society	1	0	0	0	1
Honor society	152	0	0	0	152
SAAD	225	0	0	0	225
Weight club	30	0	0	0	30
Sixth grade	36	0	0	0	36
Fourth grade	0	2,002	1,815	0	187
Art club	712	0	531	0	181
Luther football	0	5,232	2,080	0	3,152
Interest	0	360	0	0	360
Annual	9,773	12,355	10,359	0	11,769
Special activities	7,312	940	1,428	(6,498)	326
Total	\$ 52,371	108,436	109,157	1,259	52,909

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

Modified Accrual Basis					
Years Ended June 30,					
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 1,507,373	1,538,509	1,407,863	1,254,508	1,264,146
Tuition	369,585	342,593	333,183	301,927	322,783
Other	251,382	611,037	303,030	1,005,798	141,647
Intermediate sources	1,385	5,267	0	0	0
State sources	2,055,222	1,778,228	1,695,082	1,495,322	1,414,577
Federal sources	92,714	258,869	510,090	103,111	99,220
Total	<u>\$ 4,277,661</u>	<u>4,534,503</u>	<u>4,249,248</u>	<u>4,160,666</u>	<u>3,242,373</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 1,559,368	1,374,303	1,305,718	1,301,060	1,218,443
Special instruction	326,864	312,220	203,249	184,931	224,890
Other instruction	394,144	425,547	342,909	359,441	302,734
Support services:					
Student services	99,192	131,502	83,375	78,838	74,863
Instructional staff services	113,186	115,979	122,060	112,324	102,358
Administration services	560,410	550,534	555,113	473,409	442,879
Operation and maintenance of plant services	386,243	436,435	348,217	289,695	271,323
Transportation services	145,105	226,416	155,952	145,956	137,455
Non-instructional programs	0	0	0	281	227
Other expenditures:					
Facilities acquisitions	126,758	149,120	3,567,484	902,055	18,494
Long-term debt:					
Principal	276,472	283,448	265,788	209,710	118,687
Interest and fiscal charges	161,774	166,341	160,663	170,417	94,936
AEA flow-through	123,149	111,514	103,006	92,979	91,946
Total	<u>\$ 4,272,665</u>	<u>4,283,359</u>	<u>7,213,534</u>	<u>4,321,096</u>	<u>3,099,235</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Baxter Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 16, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Baxter Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Baxter Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Baxter Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Baxter Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Baxter Community School District's financial statements that is more than inconsequential will not be prevented or detected by Baxter Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Baxter Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Baxter Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Baxter Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Baxter Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Baxter Community School District and other parties to whom Baxter Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Baxter Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 16, 2009

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will monitor controls and implement procedures when feasible.

Conclusion - Response accepted.

- I-B-08 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however Activity Fund purchase orders were completed after the product had been ordered.

Recommendation - The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - We have developed internal procedures and will make every effort to ensure all purchase orders are completed prior to the purchase of products.

Conclusion - Response accepted.

- I-C-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - We are considering the recommendation and exploring other district's procedures to make every effort to comply.

Conclusion - Response accepted.

- I-D-08 Gate Admissions - During our audit, we noted that pre-numbered tickets were not always being utilized for admissions to all events that the District charges an admission fee. It appeared the only time pre-numbered tickets were being used consistently was for admissions to sporting events held on District grounds.

Recommendation - The District needs to review procedures and communicate to persons responsible for gate admissions that pre-numbered tickets should be used every time the District charges an admission to an event.

Response - We will review procedures and communicate to persons responsible for gate collections that pre-numbered tickets are to be used for all events where an admission is charged.

Conclusion - Response accepted.

- I-E-08 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will review procedures and follow the recommendation.

Conclusion - Response accepted.

- I-F-08 Student Activity Fund - We noted during our audit, that Target donations and Lifetouch picture commissions were being receipted into the Student Activity Fund.

Recommendation - Donations from Target were recorded in the Special Activities account in the Student Activity Fund. Target donations are considered an undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. The designation for Target donations should be noted annually in the District's board minutes.

The Special Activities account also has Lifetouch picture commissions receipted into it. The General Fund is the only allowable fund for commission revenue recognition. In the future, Lifetouch picture commissions should be receipted to the General Fund.

Response - We will comply with the recommendations.

Conclusion - Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.
- II-B-08 Questionable Disbursements - We noted disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-08 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, the District transferred money from the Capital Projects Fund to the PPEL fund at year end so the PPEL Fund would not have a deficit fund balance. The transfer could not be traced to Board approval in the minutes prior to the actual transfer being made.

Recommendation - The District should approve all fund transfers prior to the actual transfer and document approval and amounts as part of the record in the minutes.

Response - We will make adjustments to comply with the recommendation.

Conclusion - Response accepted.

- II-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 was understated by 0.3 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition - The District had a deficit fund balance of \$46,192 in the Debt Service Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will investigate ways to eliminate this deficit.

Conclusion - Response accepted.